# RURAL BANKING CREDITS

## The Functions and Obligations of the Chartered Banks

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During the past few years a widespread misconception has arisen in the West as to the nature of the obligations of the banks towards the agricultural community and also as to how these obligations have been fulfilled. Complaints by individual farmers of inability to obtain credit to which in a few cases they were entitled but in most cases they were not, have been seized upon by the press as a basis for severe criticism of the banks as a whole. So much is this the case that the general public has come to believe that the banks cater only for commercial business and are not organized to provide for the credit requirements of agriculture.

I therefore wish to avail myself of the opportunity afforded me by the Editor of The Guide to inform the farming community that the banks are carrying loans to farmers and ranchers in the three prairie provinces estimated in 1915 at $75,000,000. As the total number of farmers in these provinces is probably not over 150,000, it will readily be seen that these figures reflect a liberal policy of lending. And let me add that the aggregate amount loaned to farmers at any given moment is always limited only by the amount of acceptable farmers' business which may be offering.

Moreover, I wish to say, without any reservation or qualification, that there is no business viewed with greater favor by the banks in every part of Canada than that of credits with farmers of a good type. If this were not true, what would be the explanation for the hundreds of branch banks at points in the West at which practically the only business to be had is that of farmers?

There is not now—nor has there ever been except during rare occasions of world-wide money stringency—any shortage of rural credit in Canada. Too much credit, and particularly too much of the wrong kind of credit, is what the western farmers have suffered from during the long period of agricultural prosperity prior to 1912.

### Composition of Banking Funds

The ownership of the funds administered by the chartered banks is, in round figures for all Canada, as follows:

| | |
|---|---|
| Shareholders | $ 226,000,000 |
| Holders of Bank Notes | 122,000,000 |
| Depositors | 1,460,000,000 |
| | $1,808,000,000 |

It will be seen from this that over 80 per cent. of the banking funds of the country consists of moneys of depositors. It has been

argued by a prominent western statesman that these deposits belong to the people, and that therefore the people have a right to say how they shall be loaned. This is inaccurate. The deposits belong to some of the people, and the banks are in the position of trustees for the individuals to whom the deposits belong.

## Fundamental Principles of Banking Credit

Now the first obligation of the banks towards their depositors, beyond any room for argument or question, is to lend their moneys safely.

Recognizing the above duty to their depositors as paramount, the obligation next in natural sequence—an obligation alike to depositors and the public, implied by the terms of their charters and of the Bank Act—is to employ the country's banking funds only in accordance with principles of banking recognized as sound, having due regard for the credit needs of a new country.

The necessity for maintaining a substantial proportion of their assets in the shape of cash and quickly convertible investments is obvious. The remaining funds of a bank should be employed only in the production and distribution of commodities, and in no case loaned against fixed assets such as lands and buildings. (The lending of money against the last mentioned kind of property is the special function of land mortgage and investment companies.) It is important to state this principle before proceeding to consider the subject of rural banking credits.

Then the allocation of that portion of the funds of banks available for production and distribution must always be determined by competition—competition among banks for the best and safest business; and competition among those who need banking accommodation, to establish the merits of their claims to credit, on the score of a record of integrity, industry, intelligence, thrift, progressiveness, coupled with evidence of ability to repay. No man has a right to borrow from a bank merely because he needs money even for a legitimate purpose. The burden must always rest on the applicant for credit to first establish his claim thereto; and if his claim should be a really good one, the circumstances would indeed be extraordinary if his record did not suffice to make the fact clear. This is a consideration which is often lost sight of by farmers who complain of their inability to obtain bank credit.

A loan to a farmer who can be relied on to use it to improve his position is a contribution to the general welfare. On the other hand, credit extended to an incompetent and indolent farmer who is doomed to go broke, involves an economic loss to the country even though the bank should succeed in getting repaid. It is therefore the positive duty of a bank to avoid knowingly extending credit to a farmer who will not use credit advantageously, no matter what security he might offer.

## Credits to Grain Growers

The question, however, of first importance to farmers is: What does constitute a basis for credit to them? What considerations determine whether a farmer can get credit from a bank, and the amount?

A writer in The Guide recently, in attacking my suggestion that under conditions existing in the West co-operative credit associations should be founded on a pooling of assets, argued that personal character is the proper basis for credit and that a pooling of assets would be destructive of the independence of the borrower. While, however, character, i.e., possession of the cardinal virtues of integrity, industry, etc., is a fundamental pre-requisite of credit, it is by no means by itself alone a sufficient basis for credit. Ability to repay is also an essential requirement. A bank in dispensing credit will wish to be satisfied that a prospective borrower possesses means of repayment sufficient in extent to meet any normal reverse due to providential causes, as, for example, in the case of a good farmer, a crop failure.

It is a legitimate function of a bank to lend farmers the money required to put in and take off a season's crop, but in order to warrant such credit a farmer's position should be such that with a normal crop the returns therefrom would be sufficient to enable him to provide for all his floating debts—bank loans, mortgage interest, implement notes, etc. Banks do not ask more than this, provided the farmer's land and implement debts are not excessive in relation to the amount of his capital, although, strictly speaking, in order to be a really first-rate risk for credit a farmer's position should be such that even with a crop failure he would still have enough quick assets left—grain, livestock, etc.—to counterbalance his floating debts.

Take a concrete example. John Smith, a grain farmer, at the beginning of a season shows assets and liabilities as follows:—

| Assets | | Liabilities | |
|---|---|---|---|
| Good accounts | $ 210 | Owing to bank | $ 600 |
| Grain for sale | 660 | Mortgage interest | 80 |
| | | Implement notes due | 110 |
| Quick assets | $ 870 | Floating debts | $ 790 |
| Seed grain | 140 | Implement notes not yet due | 200 |
| Implements | 800 | Mortgage | 1,000 |
| Quarter section | 3,000 | | |
| Work horses | 900 | Surplus | 3,720 |
| | $5,710 | | $5,710 |

It will be observed that he has enough quick assets with which to clean up his floating debts; that his mortgage indebtedness is moderate; and that his horses and equipment are nearly all paid for.

Assuming him to be reputed a good worker, cultivating his land well and enjoying the confidence of his neighbors, in Manitoba and Alberta he would have no difficulty in getting from a bank the credit necessary for a new season's operations, say $600 or $700. (I omit reference to Saskatchewan for reasons which I will explain later.)

Then should he have a bad crop failure, he would be owing the bank $600 or $700 which it could not collect promptly without putting its customer out of business, and in actual experience this is a situation which has occurred in thousands of cases during the

past few years. In such circumstances what should the bank do? What it must do as a matter of common sense and good business, if it is satisfied that the debtor is a type of man who will eventually succeed, is to take security for the old debt and stake him for another crop. It can legally take security for the old debt, but must lend the new money without security because the Bank Act will not permit a bank to make new loans against mortgage security.

Suppose, however, that he has a second successive crop failure; that the bank then discovers that its confidence in its customer has been misplaced, the poor results of the farm having been due partly to poor methods; that the borrower takes refuge behind the exemption laws, refuses to give security for the later loans, and transfers his land to his wife. The bank would simply have to face a sharp loss, as has happened in no end of cases.

Take another case. Thomas Jones' statement at the beginning of the season is as follows:—

| Assets | | Liabilities | |
|---|---|---|---|
| Good accounts | $ 210 | Implement notes due | 110 |
| Grain for sale | 400 | Mortgage interest | 80 |
| Quick assets | $ 610 | Floating debts | $ 190 |
| Seed grain | 140 | Implement notes not yet due | 200 |
| Implements | 800 | Mortgage | 1,000 |
| Quarter section | 3,000 | | |
| Work horses | 900 | Surplus | 4,060 |
| | $5,450 | | $5,450 |

This man could stand a crop failure and still be nearly able to pay his floating debts. His claims to bank credit for all his needs would be distinctly good—his position being far above the average for a quarter-section man.

## Credits for Mixed Farming

Now, however, take the example of William Brown, who at the commencement of a season is in the following position:—

| Assets | | Liabilities | |
|---|---|---|---|
| Good accounts | $ 210 | Owing to bank | $ 600 |
| Grain for sale | 660 | Mortgage interest | 80 |
| | | Implement notes due | 110 |
| Quick assets | $ 870 | Floating debts | $ 790 |
| Cattle | 840 | Implement notes not yet due | 200 |
| Seed grain | 140 | | |
| Implements | 800 | Mortgage | 1,000 |
| Quarter section | 3,000 | | |
| Work horses | 900 | Surplus | 4,560 |
| | $6,550 | | $6,550 |

His position is better than John Smith's only to the extent of a few hundred dollars worth of cattle. He is building up his small herd of cattle and could not sell them without injuring his earning power, but this readily saleable asset would be available as security

for the bank should he have a crop failure, and it therefore became necessary to re-stake him. Moreover, the possession of some stock is an insurance against crop failure from frost, rust, hail, etc., since in the event of such kinds of disaster he can salvage his crops by feeding the damaged grain. The history of bank losses reveals very few bad debts with men raising some stock, and it is a fact that the most prosperous districts in the West are those where stock-raising prevails. Consequently William Brown would be ranked by a bank as a first-rate credit risk—better even than Thomas Jones, though the latter would be better able to pay his debts promptly—and he would have no difficulty in obtaining all the credit that he could use profitably in developing a well-balanced farming operation.

I wish to dwell on this last statement in the hope that it will arrest the attention of some farmers in livestock districts who have not gone into stock but would like to do so. The possession of even the beginnings of a holding of stock—cattle, sheep or hogs—greatly enhances the credit of a farmer with his bank, a fact that every country bank manager in districts suited to stock should lose no opportunity to bring home to his farmer borrowers.

The foregoing illustrations relate only to quarter-section men. A half-section man would require a credit twice as large, and he should have no difficulty in obtaining it provided his liabilities were not proportionately heavier. This would mean, in the case of John Smith above mentioned, that with a half-section he would need to possess a somewhat larger equipment, an equity of about $2,000 in the additional quarter-section, and altogether $2,500 or so more capital.

While the average grain grower is not as good a risk for bank credit as the average mixed farmer, a first class grain grower can obtain banking credit almost as readily as a first class stockman. In any of the purely grain growing districts of the West the man who always maintains an approved proportion of his land in summerfallow, does his cultivation promptly and well, uses only the best of seed, and exercises an intelligent thrift, can always command all the banking credit he really needs—assuming that his financial position is not less favorable than that shown in the foregoing illustrations.

### Loans to Buy Livestock

The banks have been accused of retarding the development of the western livestock industry by their unwillingness to give credit to farmers to buy stock. How this belief ever came to have wide acceptance is beyond my understanding. The farmer, owning livestock, or even wishing to own stock, has always been viewed with special appreciation by banks as far back as I can remember. In nineteen cases out of twenty a farmer's desire to buy stock is evidence of more than average industry, and creates a strong presumption in favor of his being a desirable credit risk. To my knowledge some of the banks have for several years been systematically canvassing good grain farmer customers in stock districts in an effort to get them started in livestock; and while the conversion of grain growers to mixed farmers has been

a disappointingly slow process, I emphatically declare that this has not been because of any unwillingness of the banks to furnish credit to any men at all worthy of credit.

Because prior to the 1915 amendment to the Bank Act, banks were not permitted to take security on livestock for loans to farmers, it is true that they were hampered a good deal in granting credits to buy stock. There were many honest and industrious farmers to whom banks could not safely extend unsecured livestock credits, because of the risk of some one or other of numerous outside creditors jumping in with executions and collecting his claim out of stock purchased with bank loans. But now that banks can take security for their loans on the borrower's livestock, many intelligent and industrious farmers are able to get credit for livestock purposes notwithstanding that their financial position is a somewhat difficult one.

There are two classes of livestock credits: (1) To purchase hogs, sheep and feeder cattle—quick maturing animals which become marketable within 12 to 18 months; and (2) For breeder cattle, which involve carrying loans for two or three years until the young stock mature.

The first class has always been regarded as banking business of a highly desirable kind, and there has never been any lack of credit therefor. As to the second class, while it was not formerly regarded as the proper function of a Canadian bank to grant credits for a longer period than 12 to 18 months, in view of the needs of the western livestock industry the banks have declared it to be their policy to make loans to farmers for the purchase of breeding cattle, and, subject to reasonable conditions, to grant renewals permitting young animals to be carried to maturity.

Unfortunately, the amendment to the Bank Act requires that security for loans made against livestock shall be in the form of a chattel mortgage, and this requirement operates to deter a good many farmers from taking livestock credits. In the Western States it is the established custom for farmers to give chattel mortgage security for livestock loans, but the average Canadian farmer has a horror of a chattel mortgage. Moreover, the cost of drawing and registering a chattel mortgage is usually $7 or $8, which is an almost prohibitive charge for small loans. There is no reason why this security should not be taken in the form of a simple lien or pledge which a bank manager could fill up without charge and which could be registered at a charge of twenty-five cents, as in the case of lien notes. It is altogether probable that if the farmers asked for this change in the Bank Act the government would make it, and the remedy is therefore in their own hands.

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Since the foregoing paragraphs were written I have read published statements of two western livestock authorities reiterating the old charge that farmers are unable to borrow from the banks to buy livestock, and one of these gentlemen advocates the formation of livestock loan companies similar to those existing in the United States. I therefore wish to emphasize what is said above by adding

that I have yet to learn of a single case of a competent and industrious farmer being refused credit by a bank for livestock purposes in circumstances where any fair minded man would say that the applicant was entitled to the credit asked.

The United States livestock loan companies do not make long term loans for breeding stock, but only for the purchase of feeders to be finished for market—six months' paper possibly renewable for a further six months. Large numbers of United States farmers specialize in buying from breeders animals requiring feeding over only one season to be ready for market. Our western farmers are only beginning to go into this business, which is the sole explanation for the fact that our banks have not until recently made many loans for this purpose. Had there been any demand for this kind of accommodation, it is safe to say that the amendment to the Bank Act relating to livestock would have been passed sooner than it was.

The actual fact is that some of the banks have been begging farmers to take credit for livestock. During the past year, on the initiative of the banks, an arrangement was entered into with the Dominion Livestock Commissioner whereby the banks conducted an organized campaign to interest their farmer customers in the purchase of feeders. The result has been extremely gratifying, but I need not go into the facts here, as the statistics of the Winnipeg stock yards tell the story.

Not only have our banks always looked with high favor on loans to buy feeder stock, but, as already indicated, they stand prepared to do what the United States livestock loan companies do not do, namely: make long term loans for breeding stock. A livestock loan company would therefore be as a fifth wheel to a coach. How could such an organization lend money over the thousands of square miles in the prairie provinces without duplicating at great cost the machinery which our banks already possess?

It is said against our country bank managers that they are not livestock experts, but it might as well be argued that a bank manager must be an expert in steel in order to lend to a steel manufacturing company, as that because a country manager is not a stock expert he is therefore not qualified to lend a few hundred dollars for livestock buying to a farmer customer whose affairs are well known to him. As a matter of fact, however, the average western country bank manager has good general information in livestock matters, and practically every such manager is in touch with the government livestock departments and is able and willing to obtain for his farmer customers any information which they may seek.

### Loans To Farmers Against Grain

Until quite recent years the aim of almost all farmers in the West was to market their grain at the earliest possible date after harvest, and to get the year's indebtedness settled up. In these circumstances little or no objection was ever raised to the principle of a clean-up of bank borrowings by the end of the year or shortly thereafter. Now, however, that Canada has attained the position of the world's fourth largest wheat producer, and the marketing of its surplus has become an important factor in the world's markets,

it is obvious that western farmers—and incidentally Canada as a whole—would profit largely if farmers' deliveries could be regulated so as to be spread more evenly over the period between harvest and harvest. Recognizing this fact, it is now the policy of the banks as far as possible to finance their farmer customers so as to facilitate a gradual marketing of the grain.

Every case, however, must be dealt with on its own merits. For example, a farmer whose financial position is a difficult one and who is in danger of being harassed by outside creditors, could scarcely expect that his banker would permit him to delay delivering his grain to the elevator. Once delivery has been made, however, and elevator receipts given to the bank as security, he would be entitled to the same consideration as the man who is not harassed by creditors and whom the bank is willing to carry against the security of grain in his own granary.

## The Homesteader

I have been asked: What about the homesteader's claims to banking credit? The answer is simply that, until he obtains his patent, he has nothing on which banking credit could be based.

The position of the homesteader is a particularly difficult one, but it could only be made less difficult by government action, and I am of opinion that it would be in the interests of the community that some such action should be taken. At present the homesteader must put in three years' work on the land before getting title, and many of those who have pulled thru owe their success to the good nature of the storekeeper, a condition of affairs which on the whole has been costly to the latter. The man who succeeds in sticking for three years can mortgage his land for about enough to clean up his debts, but his task would be much easier and he would be able to do more and better work on his land if he could borrow at the end of each of the first and second years one-third of the amount which he can now borrow after three years.

Only the Dominion government could step into this breach. The government could afford to make advances to homesteaders based on the acreage broken each year and the quality of the work of breaking and cultivating. There would doubtless be an occasional loss made thru inspectors passing slip-shod work, but the gain to the country from a system which would enable a lot of good men to get well started might be expected to far outweight losses. Proposals for assistance of this character to returned soldiers are viewed with favor, but is it not clear that it could be more safely extended to men who have gravitated to the land of their own initiative?

I wish to make it clear that while credit for the industrious homesteader is an urgent necessity, it is entirely out of the question that the banks should extend it—unless the government would protect the banks by a charge on the homesteaded land.

## Farming Methods

While, as already indicated, character is the first essential to banking credit, it is also an essential in the case of a farmer that he should cultivate his land by approved methods. If he

does not do this, an intelligent banker will not give him credit, because under the climatic conditions existing in the prairie provinces the man who does not cultivate well is doomed to certain failure.

Bankers have been charged with attempting to "teach farmers how to farm." If the charge had been that they have endeavored to teach **some** farmers how **not** to farm, there would have been some ground for it. Among the thousands of settlers in the West there are innumerable men of intelligence and industry who are in need of some guidance in the fundamentals of prairie tillage. What should be the relation of the country bank manager towards such men? Should he simply refuse to give them credit because they have not yet learned what methods are necessary to success under western conditions of soil and climate? Or ought he to interest himself in the farming problems of such men and seek to obtain for them the information of which they stand in need?

So long as there are settlers of limited experience on the land there will be need of the farmer-banker—the country bank manager who will actively interest himself in disseminating the best information available as to tillage methods which ensure success. As a mere lender of the bank's money he must make good farming methods a condition of credit. As a banker, however, he should recognize a broader obligation; he should not only help to procure for the intelligent and industrious new settlers the information they need with reference to tillage methods, but he should encourage such men who are aiming to do good work by extending them what credit their position warrants. And it is with this ideal in view that the leading banks with western country branches are training their country managers—systematically and with infinite pains.

Let there be no doubt on this point: That a farmer whose farming methods are slack is going to find it increasingly difficult to get banking credit, while the man who is doing high class work on his land and giving evidences of thrift such as are to be found, for example, in the possession of a vegetable garden, some poultry, a milch cow, and at least enough stock for his own meat supply, will find that his credit at the bank will grow as his needs grow.

## Handicaps To Credit

In extending credit to farmers in the West the banks meet two difficulties which deserve special mention, namely, the exemption laws and the excessive land liabilities under which many farmers labor.

**Exemption Laws.**—The intention of the exemption laws is a good one, i.e., to obviate the possibility of a farmer who has the capacity for success being forced by a rapacious creditor to sacrifice his land or a part of his necessary equipment to pay debts which he could pay in time from the earnings of his farm. Nevertheless, the fact remains that the Exemptions Act necessarily operates to curtail the credit of farmers with the banks.

An indolent and incompetent farmer being doomed to failure, when a bank makes the mistake of lending to such a man on

a quarter-section and it subsequently turns out that he is dishonest as well as incompetent, a loss is practically assured because of the exemption laws. It is not in the general interest that such a man should be kept on the land, and his farming assets ought to be available to pay his debts, but an Act designed to afford reasonable protection to honest and deserving men renders it possible for many rogues to cheat their creditors. This fact necessitates banks being extraordinarily careful in giving credit to farmers who possess nothing but exemptions.

In Saskatchewan a law was passed in 1915 to prevent a farmer from even giving mortgage security on exempt chattels. Consequently, no matter how much a bank might be disposed to re-stake a quarter-section man whose position had been rendered difficult by a crop failure, it could not afford to take the risk of largely increasing its debt. In the other two provinces the bank can take security for the old debt and stake the borrower without security for another season without putting itself in any worse position and yet give itself and the borrower a chance to recover. This being impossible in Saskatchewan, the average quarter-section farmer is now practically shut off from bank credit unless he can get a responsible endorser.

All such legislation seriously curtails farmers' banking credit and tends to increase interest rates.

**Excessive Land Liabilities.**—Very many farmers have assumed heavy liabilities in the purchase of more land than they can cultivate really well. This is a condition fatal to credit from a bank. A well worked half-section is more profitable than a well worked quarter-section. On the other hand, a well worked quarter-section is safe, while a poorly worked half spells failure and quick failure under the burden of a heavy liability on purchase account.

Under the labor conditions prevailing in the West a half-section is regarded by bankers as the limit of land which a farmer without a grown-up son can hope to farm efficiently, and a man who attempts to operate a section or more depending on casual labor is gambling on the weather. Farmers would be well advised to consult their bankers before buying more land on a small payment down.

## Speculation in Grain

The practice of speculating in grain on margins is one that has grown to considerable proportions among farmers during the past few years, assiduously fostered by some commission houses. For the farmer who allows himself to be drawn into this form of gambling there is not one chance in a thousand that he will escape loss before he stops—and he will be fortunate if he has sense and strength enough to stop before he is hurt seriously. This is not an opinion; it is the history of gambling in grain on margins since this kind of gambling was first known. Once a farmer is known to indulge in speculation on margin, his credit with a bank is ruined.

## Farmers' Records and Statements

A farmer can greatly strengthen his credit with the bank by keeping a simple record of his farm operations, so as to enable him

to give a correct statement of his assets and liabilities and show the net result of each year's operations. This point I cannot emphasize too strongly.

One of the greatest difficulties with which bankers have to cope is in getting correct statements of farmers' affairs. A commercial customer enjoying a bank credit of $100,000 brings to his banker each year a completed balance sheet audited by chartered accountants, so that the whole position can be measured up in a few moments. In the case, however, of a farmer seeking a credit of only a few hundred dollars the banker has to spend half an hour or more making out a statement of the farmer's assets and liabilities from information dragged from the farmer piecemeal. Oftener than not, too, the farmer has only a vague idea of what he owes to merchants and others, in which case the banker must spend a good deal of time in getting the actual figures, and even then there must remain a doubt as to the completeness of the statement however evident the farmer's honesty may be. Multiply this difficulty 300 or 400 times for the country branch having that many farmer borrowers! And then consider what it would mean, in the matter of the banker's confidence, to have a farmer bring in his own statement prepared from a record book.

The temptation to conceal liabilities is one to which quite a few farmers as well as business men are apt to yield, and it frequently results in serious damage to a farmer's credit. Nothing will destroy a man's credit with a bank so completely as intentionally giving a false statement, and the fact is certain to be discovered—usually very soon. The position occupied by the banker towards his commercial customers is that of financial adviser, and it should be the same with farmers. An intelligent and industrious farmer who keeps nothing back from his banker can always rely on a sympathetic consideration of his needs in the way of banking credit.

## Security for Bank Loans

Farmers often feel aggrieved at being asked by a bank for security—especially chattel mortgage security—even when they have fallen behind in their payments and are obliged to ask the bank to carry them over another year.

It is a mistake, however, to suppose that it is the function of a bank to lend money without security. As a matter of fact most commercial lending is done on a basis of security. Manufacturers usually give their bankers security on raw materials and manufactured goods; wholesale dealers in natural products also give pledges of merchandise; other wholesale distributors obtain most of their banking credit by discounting the notes of their retail store customers; and country storekeepers borrow on the security of notes of their farmer customers.

It is the exception—not the rule—for bankers to lend money without security, and the most important exception is in connection with loans to farmers. The reason for this is simply that farmers seldom have security of a kind which banks are permitted by law to take for a new loan. Credit to farmers must therefore be based largely on confidence in their ability to repay from crops. Where

this expectation fails, a bank is undoubtedly entitled to ask for security and would be foolish not to do so.

Mortgage and chattel mortgage security given by farmers to banks has saved many men from being put out of business unnecessarily by other less patient creditors. If a farmer in financial difficulty is of a type likely to work on to his feet again, the best thing he can do is to give his banker security and put himself under the guidance of the latter. A country bank manager will go a long way to help out a farmer whom he knows to be honest and a hard worker. A farmer who cannot even win the confidence of his banker would have slim chances of being helped thru by a miscellaneous lot of creditors most of whom have only a moderate claim to collect.

## Rates of Interest

The banks have come in for much unfair criticism for the rates of interest charged, which at the small country points range from 8 to 10 per cent.

The smallness of the business obtainable at the average western country point renders high interest rates absolutely necessary. The out-of-pocket expenses of operating the smallest country branch may be set down at $6,000 per annum, and the total profits of a great many bank branches now in existence are not sufficient to offset expenses—in other words, they are being conducted at a direct loss. Many people find it difficult to credit this, but the explanation is that the banks have opened many branches knowing that they could not be made to pay for some years, in order to be in a position to profit by future development.

I have been asked to explain why the very best farmer borrower does not get as low a rate as the very best commercial borrower. It will be advantageous to set my answer out under five heads:

1—The very best commercial customer brings to the bank a balance sheet and profit and loss statement audited by chartered accountants, and therefore correct to the last cent. In the case of the very best farmer, however, as I have already pointed out, the manager has to spend considerable time preparing the statement from information obtained by a somewhat lengthy process of questioning, and statements so prepared are frequently found to be incomplete and inaccurate even where the customer's honesty and straightforwardness are beyond question.

2—The best commercial customers are usually borrowers of large amounts. The actual time and labor involved in disposing of a commercial credit of $100,000 is no greater than in the case of a credit of $1,000 to a farmer. In other words, as the average farmer's loan is less than $1,000, the time and labor which must be expended in lending $100,000 to farmers at a small western country point would be more than 100 times that connected with one commercial loan of $100,000.

3—The borrowing of farmers is usually done at small points where the total volume of banking business would not be sufficient to support a bank unless the rates all round were higher than those prevailing at large centres.

4—In lending to farmers in newly settled countries losses by bad debts are abnormally large.

5—There is little, if any, difference between the rates accorded the best farmer and those accorded merchants at small country points.

If the banks had to lend at lower rates it would simply mean that numerous branches would have to be closed, to the serious injury of farmers in sparsely settled districts. It is a fact that, while no increase is at all likely, higher rates than those now charged would be necessary in order to make country banking in the West only reasonably profitable at the present time.

I should be prepared at any time to satisfy representatives of the farmers' associations as to the facts upon which my statements respecting interest rates are based.

As was the case in Ontario, so it will be in our Northwest. With the progress of settlement and the consequent increase in the volume of banking business, and with the rise in the average of farming efficiency and the resulting decrease of banking losses, will come a reduction of bank interest rates—a condition which will be welcomed as much by the banks as by their customers. This fact stated conversely means that lower interest rates cannot come without more and better business.

## Co-operative Credit Associations

In my opinion, if our English-speaking farmers could be induced to join in forming Co-operative Credit Associations based on the assumption by each member of a moderate liability for the borrowings of the other members, and regulation by the association of the total credit commitments of each member, an immediate reduction of bank interest rates would ensue. But whether or not Co-operative Credit Associations could be successfully organized in English-speaking farm communities, the fact stands out that it rests largely with the farmers themselves to accelerate the bringing about of conditions which will render lower interest rates possible.

## Profits of Canadian Banks

A digression here may be permitted to me in view of the fact that criticism of the banks' western interest rates is partly founded on the mistaken belief—widely prevalent among all classes of the community—that banking is immensely profitable. As dividends to bank shareholders are based on the par value of their holdings of capital stock, bank earnings are usually quoted at a percentage of the capital, and consequently both dividends and earnings look much larger than they really are. The "reserve fund" of a bank, however, is just as much a part of the shareholders' investment as is the paid-up capital, and obviously it should be taken into account in reckoning earnings.

In 1915 the earnings of the twenty principal banks ranged from 10 to 21 per cent. on "capital," and the total earnings of these banks amounted to 14 per cent. on their combined capital. Their combined capital was $108,000,000, but their reserve funds amounted to $108,660,000, or as much as their capital. Moreover, of these reserve

funds 58 per cent. had been paid in by the shareholders in cash, while the remaining 42 per cent. represented small annual reservations from earnings over periods of from 40 to 100 years.

To ascertain the true showing as to earnings in the year quoted the profits must be calculated on the combined capital and reserve funds, as follows:

| | |
|---|---|
| Capital, paid up in cash | $108,000,000 |
| Reserve, paid up in cash | 63,022,800 |
| Reserve from earnings, 40-100 years | 45,637,200 |
| Total shareholders' funds | $216,660,000 |

The aggregate profits for the year were $15,389,860—including dividends and additions to reserve funds—equivalent to only a fraction more than 7 per cent. on the funds belonging to shareholders. In the whole range of our commercial system the community receives no service of equal efficiency for a smaller return to those whose capital is at stake. For example, contrast the 7 per cent. earned by the banks with the percentage earned by that admirably managed undertaking of the farmers' own—the Saskatchewan Cooperative Elevator Company Limited!

## Powers of Country Managers

Some critics of the banks have made much of the argument that the branch manager has to submit applications for farmers' loans to his head office before granting them. This is one of the greatest of the numerous fallacies regarding the policy and methods of the banks. The general rule among banks having numerous country branches in the West is to clothe their newest managers with power to make loans on their own responsibility up to $1,000, which limit is largely increased as a manager gains experience. There may be exceptions to this general rule, but they are extremely few and I have no personal knowledge of them. Farmers who need to borrow instanter more than $1,000 are few and far between. Furthermore, the usual practice is to have farmers submit an estimate of their requirements for the farming season and have a line of credit established sufficient for the whole season. There is therefore no good ground for the charge that farmers are inconvenienced by having their applications for credit held up for reference to head office.

## Insurance—Fire, Hail, Life

Practically every farmer admits the necessity for insurance against fire, and yet it happens altogether too often that farmers suffer serious losses thru neglect to take out a fire policy.

There are still many farmers who are unwilling to insure against hail, but as experience has shown that practically no district in the prairie provinces is immune from hail, it is now becoming the practice of banks to stipulate for hail insurance when lending money for grain growing.

Life insurance, however, is rarely carried by farmers, notwithstanding that the welfare of a farmer's family is quite as dependent

on his life as is the case with a business man. The farmer-banker who goes a step further and makes a moderate amount of life insurance a condition of credit will be a benefactor to the farming community.

### Advice Respecting Investments

Farmers are often easy victims of peddlers of shares in get-rich-quick companies. Instances of farmers being ruined or losing heavily by subscribing for a large amount of worthless company shares on easy payments, are almost as numerous as similar experiences by farmers who go beyond their depth in the purchase of a threshing outfit or tractor engine.

Farmers should consult their banker before committing themselves to important investments, whether in company shares, land, threshing outfits or anything else. Even if they do not accept the bank manager's advice, it could do no harm to hear it.

Where a bank manager is not himself in a position to advise as to the value of company shares, he can easily obtain full information by writing to his head office, and this is a kind of service that banks will gladly render.

### Farmers Should Take All Floating Credit From Bank

Too easy credit in the period of agricultural prosperity prior to 1912 is responsible for the present financial troubles of many western farmers. Too much land bought on deferred payments, too much credit for horses and implements, too much store credit—instead of careful buying as they went. All this has operated to the farmers' serious disadvantage in two distinct directions.

In the first place, the necessity for large crop returns was an incentive to the cropping of big acreages indifferently cultivated—gambling with the weather man, instead of playing safe with an acreage limited to what could be well prepared.

In the second place, the assumption of excessive liabilities established retail distribution almost wholly on a credit basis, and a credit basis in a newly settled country means that all prices have to be loaded with a generous allowance for bad debts and interest.

Now, when financial difficulties overtook our farmers in the period of indifferent crops and low prices, one of the burdens of which they complained most was the rate of interest on their mortgage and bank indebtedness, and for the most part they were unconscious of the fact that their credit for implements, horses and store supplies was costing them all the way from 15 to 40 per cent.

Until a farmer gets into a position where he can obtain all his credit from the bank and pay cash for all his equipment and supplies, his prosperity will be very limited. Over a great portion of the western provinces the crops and prices of the past two years have enabled most farmers to attain a position where they should not need to take any credit except from their bankers; and the banks, the merchants and the farmers should co-operate to permanently establish retail trade on a cash basis and secure for the farmer the benefit of real cash prices.

"Aim to shape your affairs so that you can obtain all necessary floating credit from your bank" should be the slogan of our farmers' associations, and until a farmer gets into this desirable position he should not take a dollar of credit from merchants and traders that he can possibly avoid. He should not let a good salesman talk him into buying a new wagon or a new binder or any other new thing when the old one still has a year or so of good service left.

I repeat that to entitle a farmer to bank credit, his financial position should be such that, confining all his floating debts to the bank, an average crop would afford him the means of cleaning up at the end of the season.

Heretofore banks have not usually held good farmers down strictly to these lines, but all interests are now working towards such a condition, and the sooner it is fully attained the better it will be for the farming community.

## Branch Banks vs. Local Banks

Some western critics of the Canadian banks as regards the policy of the latter in the matter of rural credits, have discussed the relative merits of our banking system and the system of small local banks existing in the United States, always in favor of the latter. Mr. G. W. Leedy, ex-governor of Kansas but now engaged in farming in Alberta, made a notable speech at the annual convention of the United Farmers of Alberta a year ago, in which he contrasted the service given farmers by the local banks of Kansas with that of the branch banks in Alberta. But Kansas is a great deal older than Alberta, its settlement having commenced almost while buffalo were still at large in Alberta. His comparison of Kansas should have been made with the old settled province of Ontario; and for a fair comparison as to Alberta he should have taken newer states, such as North Dakota and Montana, in which the going rates for farmers' loans at small towns are at least two per cent. higher than those in our western provinces.

Read this extract from the report of the United States Comptroller of Currency for 1915:

> "2,743 national banks in forty-two states, covering 98 per cent. of "the total area of the continontal United States, exclusive of Alaska, "admit under oath that they are charging 10 per cent. or more on some "of their loans; and 1,022 national banks, in twenty-five states, which "include 74 per cent. of the total area of the continental United States, "exclusive of Alaska, also confess that they have been charging on an "average anywhere from 10 per cent. to 18 per cent. or more on all of "their loans."

It is to be noted that this report does not deal with the State banks, whose showing would probably be more unfavorable than that of the national banks.

As to Mr. Leedy's own State of Kansas, the Comptroller reports 21 National banks as having admitted that on some loans they were charging 12 per cent. or more!

If the authoritative statement given above does not effectively dispose of the fallacy that local banks would or could lend to our western farmers at better rates than branch banks, then facts

mean nothing. The truth is that no part of North America ever had at the same stage of its development as good banking facilities as our western provinces.

Let me add that twenty years ago there were in the province of Ontario 161 private country banks, occupying a position analagous to that of the local banks in the smaller towns in the United States. Today there remain only 19. Of those that have ceased to exist a large number failed with heavy losses to depositors, while the others sold out to chartered banks or went out of business because they could not live on the rates of interest at which the banks were lending.

If during the boom period we had had free banking laws under which any adventurers with a little capital could have started up local banks and taken deposits from people unable to distinguish between the security afforded by such organizations and that afforded by old established banks, it is certain that the results would have been disastrous to the public in many western districts.

## Large Centres vs. Small Ones

Another common and glaring fallacy is the belief that business interests at the large centres are favored by banks at the expense of those in small places and of the farming community. The truth is the reverse.

In large cities the public do not know and do not care with which of the banks its leading business houses keep their accounts, and banks are in a position to consider applications for commercial credit purely on their merits. But at small country points it is common knowledge that the leading merchant is a customer of a certain bank. Consequently, if this bank will not give him all the credit he asks for and another will, and he therefore transfers his account, his new banker is incidentally advertised as the more liberal dispenser of credit.

It is much the same in the farming community. If a farmer well thought of by his neighbors is refused credit by his banker, he will naturally think he has been badly treated, and usually he will not fail to tell his side of the story to his neighbors. The bank thereby loses one influential friend and its reputation for considerate dealing comes under suspicion in the minds of numbers of others.

The goodwill and success of a bank in a community depends upon the number of its friends and the fewness of its enemies. Consequently in small communities where the relative merits of the local banks is a common subject of gossip, and where the total volume of business offering is scarcely sufficient to pay the operating expenses of a branch, the conditions described above result in greater stretches of banking principles than is the case in the big cities.

Moreover, a shrewd banker would rather have 100 customers borrowing $1,000 each than one customer borrowing $100,000—100 friends for his bank instead of one.

## Better Bankers

There is nothing wrong with our banking system. On the contrary, it is admirably designed to provide for the credit require-

ments of agriculture and commerce alike, as is shown conclusively by the fact that no complaint has ever come from farmers in the old settled provinces of the Dominion.

Our real need is, not for a better system, but for better bankers. This is a frank admission, but I have no hesitation about making it, because there is nothing in the situation for which the banks can fairly be blamed. The conditions which have prevailed in this respect could not well have been different in a country undergoing such an extraordinarily rapid settlement as that which has taken place in the western provinces since 1900. In that period there have been some 800 branch banks opened in the West. It could not have been expected that experienced bankers would be immediately available for these new offices. It takes years of training to develop a sound bank manager, especially where conditions are new and the risks of lending abnormally great. No pains have been spared by the banks in the training of farmer-bankers in the western provinces, and before long our western bank managers will compare favorably as to efficiency with those in any part of America.

## Banker-Farmer Conferences

On the initiative of the Joint Committee of Commerce and Agriculture, a conference of western bank representatives and representatives of the farmers' associations was held in Winnipeg on July 27 last, at which all points of difference were fully discussed. As a result the farmers' leaders gained a better understanding of the difficulties attending the extension of credit to settlers scattered over large areas in a new country, while the bankers in turn benefited in an equal degree by the frank discussion which took place of matters respecting which the farmers felt they had grounds for complaint. The final outcome was the enunciation of a comprehensive policy, subscribed to by all the banks, the general terms of which were accepted by the farmers as satisfactory. The understanding arrived at is fully set out in the report of the conference in The Guide of August 2 last.

It was agreed that further conferences should be held from time to time as matters requiring discussion might arise, and the suggestion was offered by the bankers that the farmers' associations should create a Committee of Reference from among their own members, to investigate complaints of individual farmers, with the assurance that the western representatives of the banks would be ready at all times to discuss with such a committee any cases in which there might appear to be a reasonable foundation for complaint.

It may therefore be assumed that the differences between the western farmers and the banks are in a fair way towards a satisfactory adjustment.

## Summary

I reiterate—again without any qualification—that the fundamental assumption upon which criticism of the banks in the West has been based—namely: that our banking system is not adapted to meet the credit requirements of agriculture and that the banks

do not cater for farmers' credit business—is not merely untrue but is diametrically the opposite of the facts. Indeed, the chief ground on which the banks are open to fair criticism is, that, in common with all other business interests, they have given too much credit in the past to great numbers of farmers.

Subsidiary points in the foregoing article which I should like to emphasize by recapitulation are:

1—Honesty, industry and thrift are fundamental pre-requisites to bank credit, but added to these must be approved farming methods.

2—Moreover, a farmer's financial position should be such that with an average crop he would have enough produce for sale to counterbalance his floating debts. Where this is the position, a bank would readily carry loans secured by such produce until the latter could be conveniently marketed.

3—In livestock districts the possession by a farmer of a fair amount of stock greatly enhances his credit standing with a bank, and it is the declared policy of the banks to extend livestock credits to good farmers for a sufficient time to enable the stock to be carried to maturity.

4—Farmers should recognize that a bank is entitled to security for its loans, particularly where the loans have to be carried over from one season to another. Security in the hands of a bank on all of a farmer's assets has frequently operated to protect a good man against drastic action by an occasional outside creditor bent only on collecting his account—action which usually brings other creditors down on him.

5—The credit of a farmer with his banker would be greatly strengthened by his keeping a simple record sufficient to enable him to make out a correct list of his assets and liabilities. Deception in giving particulars of assets and liabilities will utterly destroy any man's credit with a bank.

6—A farmer's buildings, implements and crops in barn should be kept always fully insured against fire. Hail insurance is also desirable—so much so that banks now usually make it a condition of farming credits. Very few farmers insure their lives, tho practically every business man does. It is just as much needed in the one case as in the other, and bank managers should advise their farmer customers to carry a moderate amount of life insurance.

7—While exemption laws sometimes serve a good object, all legislation aimed at shielding debtors from their creditors, operates to curtail credit and increase interest rates.

8—A farmer should take his banker into his fullest confidence and make him his financial adviser. Particularly should he consult his banker before entering upon any important commitments for the purchase of land, tractors, threshing machines, shares in companies, etc.

9—A farmer's floating credit should all be obtained from his bank. Credit which farmers now take from storekeepers, implement agents, horse dealers, etc., costs from 15 to 40 per cent., and

credit taken to buy more land than a farmer can cultivate immediately and well is the most ruinous of all. When the majority of our farmers get into a position to pay cash for all equipment and supplies, they will not only effect a big saving in their expenses, but they will have created conditions of solidity and prosperity which will automatically lower bank interest charges.

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As a last word, I should like to say to our farmer friends that if what is set out in the foregoing article should create the impression that I am contending that the banks have not made any mistakes in dealing with individual cases of farmers' credits, this is far from my intention or my belief. Of course there have been mistakes made, and some grievous mistakes. But I may say, by way of personal confession, as to the bank which I represent in the West, that for every one mistake made in refusing credit to a deserving farmer there have been probably ninety-nine mistakes of giving too much credit. As I have already pointed out, however, the conditions which have existed in the Northwest were entirely new and have rendered it a matter of extraordinary difficulty to dispense rural banking credit wisely. Moreover, adapting an old adage, we may be permitted to take some comfort from the knowledge that the banker or farmer or business man who has never made any mistake has never made anything else.

I hope and believe the lessons to be derived from the experience of the past ten or fifteen years of western agricultural development have been well learned by all the banks, and that this will be reflected in the rapid evolution of a highly efficient type of farmer-banker throughout the West. It can safely be said also that the banks are all keenly alive to their obligations to the western agricultural community; that they are all in active competition to win and deserve the good-will of the farming communities in which they are respectively seeking to build up a farming clientele; and that it follows that each bank will be striving to avoid the reproach of being fairly chargeable with inconsiderate treatment of any customer.